

## **Honey Market Report** **November 25, 2008**

The international honey market has entered a period of turmoil and considerable aberrational phenomena in import patterns have been observed. There has been great tension in the American honey market between a market for inexpensive “illicit” honey and the market for legal and reasonably priced honey. This tension is experienced by beekeepers, packers and importers.

### **Major Economic Conditions**

Over-shadowing the tense honey market is a global economy that is clearly in a recession that borders upon and flirts with a depression that could occur if the financial crisis is not handled with wisdom by the leaders of major economies of the world. Currency relations and energy costs are in flux. These concerns are compounded by: 1) questions regarding global environmental conditions and their effect upon agricultural production and 2) ongoing struggles to protect the health and vigor of the global population of bees that are needed for both pollination of crops and honey production.

The financial crisis has threatened the solvency of major banks and global insurance companies. There is an old saying, “If you owe the bank a million dollars, the bank owns you. If you owe the bank a billion dollars, you own the bank.” To this saying we may add, “If you owe a trillion dollars, you own the government.” As banks teetered towards insolvency with huge portfolios of non-performing mortgages, it became clear that it was an illusion that there are no ceilings to asset valuations and a dangerous delusion that we could export and dissipate risks in the forms of bundled mortgages and derivatives. To overcome the real threat of insolvency to the financial system, a bailout was initiated and partial nationalization of the financial system began to everyone’s surprise.

This bailout both greatly increases the national debt and the money supply. Both of those factors would tend to weaken the US Dollar and indeed that may eventually happen. However, since this is such a global financial crisis, the immediate effect has been to substantially increase the strength of our currency relative to the Euro. In the second half of the year, the Euro went from about 1.59E/1USD to 1.25E/1USD. That strengthens the competitive position of the American market in buying honey in competition with European buyers. U.S. dominated prices should weaken as a result. The increased strength of the US Dollar relative to the Canadian Dollar has had a similar effect on Canadian honey prices. Petroleum prices have plummeted as have prices for many agricultural commodities such as soybeans. Consumer confidence is down and both consumer debt and unemployment are up. As 2009 commences the macro-economic factors are very different from the macro-economic conditions when 2008 commenced.

### **Supply/Demand**

The overall international supply/demand relations point to a firm honey market.

On November 7, 2008, the U.S. Federal Register published a preliminary ruling whose impact will be to both: 1) increase anti-dumping rates for Chinese exporters and 2) change the basis from ad valorem to weight for Chinese honey imported into the U.S.A. These changes may take effect as early as December, 2008. The anti-dumping duty rate will be \$1.20/lb. which should put a floor price of about \$2.00/lb. on all Chinese honey entering the U.S.A.

The clear intent of the U.S. Department of Commerce in making these changes is to stop the U.S. Customs fraud that is associated with gross undervaluation of Chinese honey entering the U.S. market. That this mode of fraud is serious is manifested by the fact that a whopping 6.4 million pounds of Chinese honey entered Los Angeles in the month of August valued at \$0.22/lb. For the first 8 months of 2008, the average customs value for imported white Chinese honey was \$0.189/lb. By so grossly under-valuing the honey, the importers' cash deposit requirements became minimal. If, and when, the duty basis is changed to weight and the anti-dumping rate increased to \$1.20/lb., the effect will be huge and the option of undervaluation as a means of circumvention of the intent of the anti-dumping orders governing honey will be lost. There may be huge retroactive duties associated with this change.

The two other forms of circumvention remain, namely: 1) Bringing in "honey" under the so-called "packers' blend" or other designations and 2) transshipping Chinese honey through third countries. The Chinese are talking of their new "joint venture" honey factories and businesses in Indonesia, Malaysia, India and Thailand.

There has been a surge of "new companies" with no history of importation of honey from countries with no history of producing those specific qualities and quantities which are appearing in the marketplace. For example, countries with tropical and semi-tropical climates tend to have flora sources that produce amber, light amber and extra light amber honey, not the huge quantities of white honeys that are produced in Canada, China, Argentina and the U.S.A.

Some of the surprising and aberrational trade patterns are indicated below.

#### India

A total of 38,312,000 pounds from India were imported in 2007, with 65% Extra Light Amber. Of the 24,520,000 pounds that entered in 8 months of 2008, about 41% was White, 17% Extra Light Amber, and 41% was Light Amber. In June, 2008, a report that antibiotics and lead were found in Indian honey led to talk of a ban on Indian honey in Europe and other international markets.

#### China

Chinese White Honey had an average customs value of \$0.226/lb. for the month of August, 2008, and \$0.189/lb. for the first 8 months of 2008. These values are absurdly low, and have led to the imposition by the DOC of a per kilogram duty based on weight, not value as indicated by invoices. White Indian honey by comparison in August 2008 was valued at \$1.29/lb.

#### Indonesia

White Honey imports up through August 2008 showed a 407% increase over the total amount imported in 12 months of 2007. All the imported Indonesian honey was white or extra light amber in 2008. 2008 imports from Indonesia are projected to increase by nearly 200% over 2007 volumes and reach 7,569,000 lbs. for the year.

#### Malaysia

Total imports through August 2008 were 5,691,601 lbs., compared to 3,817,586 lbs. for 12 months of 2007. In 2007 and 2008 white or ELA colors comprised 100% and 80% of imports, respectively. This is unusual for a region that would be expected to produce primarily darker honeys. In 2007, 91% of Malaysia's honey exports were made to U.S. destinations, and the total volume of Malaysia's exports increased 900% over that of 2006.

#### Thailand

White honey imports reached 1,262,100 pounds through August 2008, almost 10 times the volume of Thailand white honey for 12 months in 2007. Honey imports from Thailand in 2007 were 85% Light Amber in color.

Packers report having received over the past year many samples from new importers who offer honey in large quantities from new sources. Those samples have flavor profiles that are like Chinese honey. Pollen analyses have shown that most of the pollen has been filtered out of the honey, but the pollen that remains suggests Chinese origin.

The two-tiered market is crushing to both the packers and importers, no less the beekeepers, who try their best to conduct business with integrity and responsibility. The price gaps are so huge that the unfair price advantages are devastating. How much of the surge of under-valued imported honey remains as carry-over and where it is will influence current tendencies.

Our country does not produce enough honey to meet its demands. So we need imported honey to supplement our national production. But the honey should enter the marketplace fairly so that all can compete on a level playing field governed by law and business ethics.

#### **Brazil**

Brazil is becoming an important source of honey, both conventional and certified organic. Brazil also has the potential to significantly increase its honey production since it is a large agricultural producing nation that can produce honey throughout the year. But roughly 80% of Brazilian honey is darker grades like LA, ELA and Amber. The total 2008 crop is estimated to be between 17,000MT and 22,000MT.

The U.S.A. has become the major market for Brazilian honey. In September and October, exporters reported major increases influenced by the declining availability of the

2008 Vietnamese honey crop most of which was already exported. Both Brazil and Vietnam serve the industrial honey market with the exception that Brazil also serves the organic honey market which has grown so significantly in recent years.

Through October 2008, Brazil exported 11,318MT to the U.S.A., 2,130MT to Germany and 782MT to Canada. The European Union is now open to Brazilian honey exports. Germany has traditionally paid higher prices than has the U.S.A.; during the first part of this year when the Euro was as high as 1.60E/1US Dollar, Europe could pay considerable premiums.

But the Brazilian Government has established many strict regulations that must be followed in order to obtain the right to export honey and other agricultural products. Step by step the Brazilian government is authorizing more exporters to ship honey to Europe. Germany, Spain and England are all eager for Brazil to participate in their markets and, thus, compete with Argentina. The European market favors darker colors and stronger flavor profiles. Therefore, Brazil's predominant production of darker grades conforms to European flavor preferences.

Brazil's currency the Real weakened relative to the U.S. Dollar during the early stages of the global financial crisis. This provides some deflationary pressure on U.S. Dollar prices for honey. The second half of 2008 saw prices decline from what had been historic highs for Brazilian honey.

Brazil worries about the potential decline in consumption as the world enters what could be a protracted recession. Unlike many luxury goods, food is not part of discretionary purchases. In countries like Germany where the per capita consumption level is much higher than in the U.S.A., honey is part of daily consumption. The work of the Committee for the Promotion of Honey and Health becomes especially valuable in maintaining consumption during periods of consumer uncertainty and caution.

### **Argentina**

Argentina's 2007/2008 honey crop was about 70,000MT; 62,000MT of which was exported by October. Europe bought about 70%-80% of the Argentine crop with Germany taking 40% and the U.S.A. 15%. The carry-over is only about 8,000MT. Eighty percent of 2008 crop was LA and ELA and only 20% white. In general, the Argentina honey crops have been declining from 100,000MT to 80,000MT to 70,000MT per annum. The color has also been drifting to darker colors largely as a consequence of delayed crops that lead to a mingling of sunflower with clover and alfalfa honey.

As a consequence of both anxiety for the economic environment and the 15% devaluation of the Euro, U.S. Dollar prices during the 4<sup>th</sup> Quarter have declined by 10% from about \$3,200/MT, which represented historic highs. That is equivalent to a change from \$1.60/lb. to \$1.45/lb. Demand is both weak and confused as most packers in Europe and North America are waiting to see how crops develop in Uruguay, Brazil and Argentina.

Argentina's 2008 autumn (our spring) was very dry. Early spring rains gave a boost to the nectar flow but by mid-spring, high temperatures and dry conditions returned. Parts of Argentina, like Chile and Uruguay, are in mid-spring (our autumn) extremely hot and dry. Friends in Chile and Argentina have reported that prior to Thanksgiving parts of the Pampas were like "tinder boxes."

If dry conditions are not relieved by December 2008, Argentina will again face a delayed, short and darker honey crop. The prospects for a bumper crop of 100,000MT, as Argentina had in the past, have diminished, as they have for the U.S.A. crop.

The political and economic situation in Argentina has grown tense. The Government nationalized private pension funds and has intervened to impose ownership upon the 30 biggest Argentine companies. Credit for both companies and consumers is increasingly under the control of the national Government.

### **Canada**

Canada produced about 62 million pounds of honey in 2008, a decline of 10% from the 2007 crop. Average yields declined by about 10% to 106 lbs. per hive accounting, thereby, for the overall decline. The quality remains very white and the flavors wonderful as is typical of Canadian honey. Sunflower and buckwheat crops did not materialize so the 2008 crop is predominantly white, clover and alfalfa.

Colonies remained at about 585 thousand hives. Costs of production were high because of the previous high prices for fuel, labor and medications to keep the bees healthy. Beekeepers are striving to keep hive numbers high as a precaution against winter losses.

By mid-November, about 60% of Canada's 2008 honey crop was either shipped or sold for shipment. The weak Canadian dollar allowed U.S. Dollar prices for Canadian honey to drop and become very attractive. Canadian dollar denominated honey prices began at 1.35 and have moved to 1.60 as more of the crop was sold and beekeepers immediate need for cash decreased.

The Canadian banking system is highly regulated and there appears to be less concern for insolvency in the Canadian financial system. This may result in a strengthening of the Canadian dollar in 2009 when the magnitude of the U.S.A. multi-tiered bailout becomes clearer and the new Administration tackles the economic malaise caused by cumulative national and consumer debt.

### **U.S.A.**

The U.S.A. crop was about 160-170 million pounds, a promising improvement over 2007. Good weather conditions in the Dakotas contributed to the recovery from the disappointing 2007 crop. Inventories of previous crops are depleted.

Many beekeepers report their bees are in good condition. The concern for bee losses seems to be centered in Texas where many bees are wintered. California wintered bees

start out with minimal losses. There is concern that there will not be adequate bees for pollination of the almonds in February.

In Florida, the State Department of Agriculture is recommending 5 annual sprayings of the citrus groves to protect against pests. The pesticide used has been shown to cause larvae deaths in bees. This is creating concern for Florida's important orange honey crop.

The American honey market, perhaps more than any other international honey market, remains saddled with the tension between the two tiers of the market. Beekeepers have been very active to try to prevent distortion of the market by illegal circumvention schemes. Many foreign producers also are concerned to bring stability and a level playing field that will eliminate the circumvention of Chinese honey in the American honey market. Hopefully, progress will be made.

### **Vietnam**

The major Vietnamese honey exporters and the Vietnamese Beekeepers Association estimate that the total 2008 crop will be between 37 million and 41 million pounds. At least 99% of that crop is LA, ELA and Amber honey. There are about 6 or 7 major floral sources including rubber, coffee, lychee, longan and cashew honeys. Vietnam's major market is the U.S.A., but the Japanese Government has recently reduced duties on Vietnamese honey from 25% to 12%.

The quantities exported by Vietnam over 8 months of 2008 are similar to 2007 exports, and 85% is Light Amber in color, similar to the percentage of 89% Light Amber for 12 months of 2007. Vietnam, like most nations, is expressing concern regarding the potential negative consequences to the honey market of the global economic crisis.

### **Science and Honey**

There is growing international awareness that the principle Science First, Standards Second is essential for honey.

Honey is a marvelous natural product that results from the interaction of a wide range of botanical life forms and zoological life forms. Those interactions are affected by a wide multiplicity of variables. Those variables reflect the diverse flora, environmental, metabolic and photosynthesis process and conditions found in the broad regions of the planet where honey is produced. Honey's chemistry, like that of tea and wine, is very complex, subtle and heterogeneous.

In respect to important questions of adulteration, flavor profiles, pollen content, or country of origin, it is increasingly clear that a comprehensive database encompassing the plethora of variables must be scientifically gathered and a catalogue of authentic data of honey profiles must be established. Academic scientists, commercial laboratories throughout the world, and scientists from the FDA are becoming clearer about this need. Some producing countries have begun to provide samples for such a requisite database of different types of honey produced in different areas and under different climatic conditions.

Without such a database, false positives become all too common. Friends in the U.S. Department of Agriculture told me a story about a French accusation made some years ago that a vineyard in the State of Washington adulterated its famous and excellent wines. The basis of this erroneous claim was differences in the magnetic resonance profiles of the nuclei of the compounds in the wine as compared to the nuclear resonance profiles for French and European wines. It was shown that the differences in test results did not arise from adulteration by the Washington winemakers but reflected differences in the metabolic processes of the plants producing the grapes used in the wines.

We need a more comprehensive database. There are independent scientific experts who recognize that fact and are willing to help analyze a comprehensive database of the world's honey which is so rich in chemical diversity.

### **Testing Limits and Tolerance Levels**

If you attend virtually any meeting, any place in the world of beekeepers, you will observe there are extensive and urgent scientific discussions regarding how to protect bees. Bees like other forms of botanical and zoological life are vulnerable to disease. This means that honey does not dwell in a realm of absolute, pristine and mythical purity any more than bees dwell in a mythical realm of invulnerability to disease.

The international beekeeping industry will find reasonable and realistic ways to protect both bees and the people who consume the products made by bees. The dairy industry, beef industry, poultry industry and seafood industries have recognized the fact that their products have traces of residues. The honey industry needs to do the same and work with the Government to establish testing limits and tolerance levels based upon ADI (average daily intake) levels. This is necessary for scientifically assessing both risks and benefits.

### **Publications**

I want to conclude this report by referencing two new books relevant to the international honey industry. *The Honey Revolution*, co-authored by Dr. Ron Fessenden and Mike McGinnis of the Committee for the Promotion of Honey and Health, is being published. E. O. Wilson, prize-winning biologist from Harvard, has co-authored *The Superorganism; The Beauty, Elegance, and Strangeness of Insect Societies*. Both of these works will hopefully be of value, increase our understanding and promote a positive agenda for the future of the American and global honey industries.